

# Regulator's Dialogue

**Recent Developments in the Supervision of  
Anti-Money Laundering and Counter-Financing of  
Terrorism**

**9 January 2020**



HONG KONG MONETARY AUTHORITY

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# Agenda

- The Financial Action Task Force (FATF) Mutual Evaluation of Hong Kong
  - *findings, recommendations and implications for the banking sector*
- Harnessing potential of technology in AML/CFT work
- Thematic Review of AIs' Application of AML/CFT Controls in the SME Segment
- Q&A



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# Mutual Evaluation of Hong Kong

- A good result for Hong Kong:
  - Hong Kong's AML/CFT regime recognised as being effective and in line with international standards
  - **Top 5** in FATF and **First** in Asia Pacific achieving a “Pass”
  - **Immediate Outcome:** Out of 11 Immediate Outcomes, 6 rated “Substantial” and 5 “Moderate”
  - **Technical Compliance:** Most FATF Recommendations are “Compliant” or “Largely compliant”
  - Commitment of the banking sector in AML/CFT efforts has contributed significantly to this positive assessment



# Effectiveness Ratings

Immediate Outcome	Rating *	Immediate Outcome	Rating *
IO1 Risk, Policy & Coordination	Substantial	IO7 Money Laundering Investigation & Prosecution	Moderate
IO2 International Cooperation	Substantial	IO8 Confiscation	Substantial
IO3 Supervision	Moderate	IO9 Terrorist Financing Investigation & Prosecution	Substantial
IO4 Preventive Measures	Moderate	IO10 Terrorist Financing Preventive Measures & Financial Sanctions	Substantial
IO5 Legal Persons & Arrangements	Moderate	IO11 Proliferation Financial Sanctions	Moderate
IO6 Financial Intelligence	Substantial		

\* 4 Ratings of effectiveness level in decreasing order : High, Substantial, Moderate & Low



# Mutual Evaluation of Hong Kong

- *Key results of relevance to the banking sector (IO4):*
  - Large FIs and those in international financial groups have a good understanding of:
    - AML/CFT obligations and ML/TF risks and good levels of CDD and BO requirements implementation
    - Specific higher risk situations (e.g. correspondent banking) with commensurate EDD measures
  - Adequate systems and controls
  - Increased use of data analytics in monitoring by larger AIs and controls for correspondent banking is highlighted
  - Recognition of the sector's proactive efforts including the Fraud and Money Laundering Intelligence Task Force (FMLIT) and the work around proliferation financing



# Mutual Evaluation of Hong Kong

- *Key results of relevance to HKMA (IO3):*
  - Robust entry controls (licensing, screening etc.)
  - Strong endorsement for HKMA's risk-based AML/CFT supervisory model based on good overall understanding of ML/TF risks at sectoral and institutional level
  - Good range of guidance and outreach, HKMA noted to place emphasis on the understanding of risk and sharing information to mitigate the risks
  - Remedial and disciplinary actions being taken while their effectiveness and proportionality to be fully demonstrated over time



# Post-Mutual Evaluation

- The HKMA appreciates the need to sustain the efforts and positive results for the banking sector
- Where should we focus our efforts?
  - Circular on “FATF Mutual Evaluation Report of Hong Kong”, 4 September 2019
  - More guidance on our website:  
<https://www.hkma.gov.hk/eng/key-functions/banking/anti-money-laundering-and-counter-financing-of-terrorism/>



# Major themes (1)

- **As ML/TF risks continue to evolve, so must our understanding and response**
  - Banks' ongoing efforts to review and update understanding of ML/TF risks should continue
  - HKMA is also updating its own understanding of ML/TF risks, which will inform an updated jurisdiction-wide risk assessment
  - These will provide a critical element of the evidence base to determine the HKMA's risk-based response in years to come



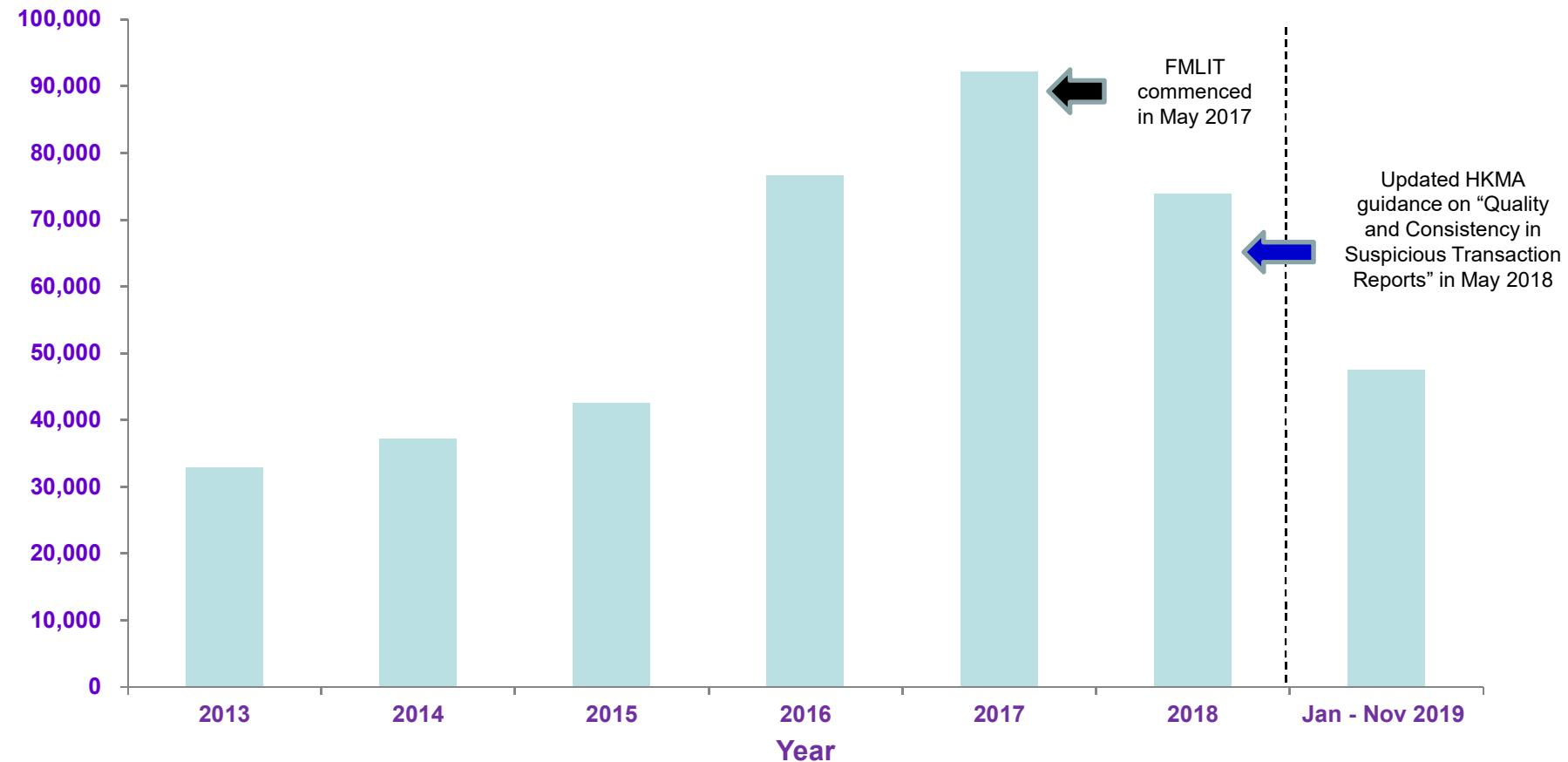
## Major themes (2)

- **Importance of quality and timeliness in suspicious transaction reporting**
  - While levels of understanding and reporting by large AIs are assessed favourably, there is room for improvement, especially by smaller AIs
  - AIs are reminded to review policies and procedures against the revised guidance on “Quality and Consistency in Suspicious Transaction Reports” provided to AIs in May 2018 to improve the quality of STRs
    - Technology and information sharing are important enablers



# Suspicious Transaction Reports (STRs)

Number of STRs to the Joint Financial Intelligence Unit



# Major themes (3)

- **Approaches and toolkits for AML/CFT efforts**
  - AIs should focus efforts in areas which may offer the greatest potential to address ML/TF risks; continue to develop the information-sharing approach of FMLIT
  - AIs should explore how technology can be used to more effectively and efficiently combat ML/TF risks, such as analytics in monitoring
  - HKMA will continue to deploy the full range of supervisory and enforcement measures in a proportionate and graduated manner



## Major themes (4)

- **What can be expected in legislation and regulation?**
  - Major changes were made to AMLO and Guideline in 2018 and these were generally well assessed by the FATF
  - Technical gap in relation to the coverage of Politically Exposed Persons (PEPs) will be addressed
  - Regulatory expectation remains principle-based as a means to implement RBA and support greater effectiveness
    - e.g. PEP requirements
  - Industry FAQ exercise is ongoing



# Looking forward

- Based on the good outcome, Hong Kong put under standard follow up process, which means reporting back to FATF in 3 years
  - Expectations exist that most of the recommendations will have been met
- No complacency – key areas for future developments in promoting effectiveness and efficiency
  - Collaboration: public-private partnerships
  - Technology: RegTech remote on-boarding
  - Data: Improving quality, structure and making better use of disparate sources of data to support AML/CFT work
  - Analytics: provide better insight, monitoring and detection
  - Skills and expertise: need to keep pace with developments



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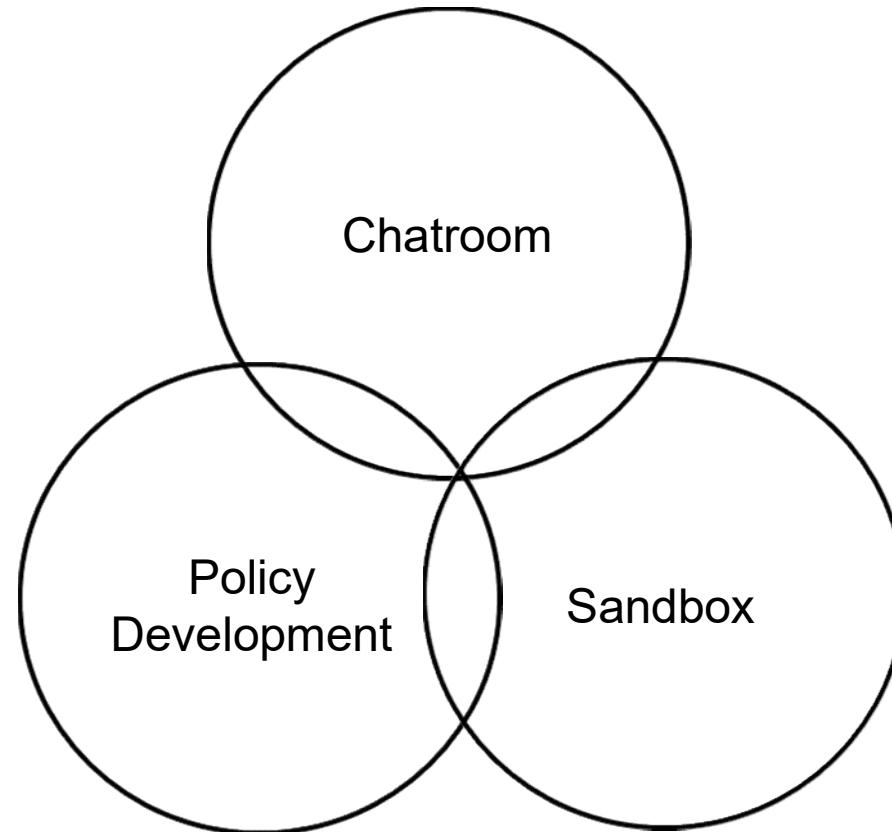
# Innovation

- Our Goals are
  - Efficiency & effectiveness
  - Delivering outcomes that matter
- New and emerging sectors develop responsibly
  - SVF and VBs
- Our requirements support change
  - AMLO & the AML Guideline
  - Timely guidance in line with international standards
- We enable change consistent with HKMA objectives
  - Hong Kong as an IFC
- We stay relevant and competitive
  - International standards and practices



# Enabling and Supporting

- Responsible RegTech adoption has already taken place



# Moving the Needle

- Increase our active stimulation so innovation becomes BAU
- Help create the conditions so that *all* AIs are exploring and using RegTech in AML work
- Encourage greater collaboration to realise potential



# Fostering a diversified ecosystem for AML/CFT RegTech



## HKMA AML/CFT RegTech Forum Record of Discussion December 2019



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- **Next steps**
  - AIs use of AML/CFT RegTech will be a key focus in 2020
  - Activities to maintain the momentum from the Forum
    - “Accelerators”
    - “Enablers”
    - “Collaborators”
- Knowledge-sharing remains key



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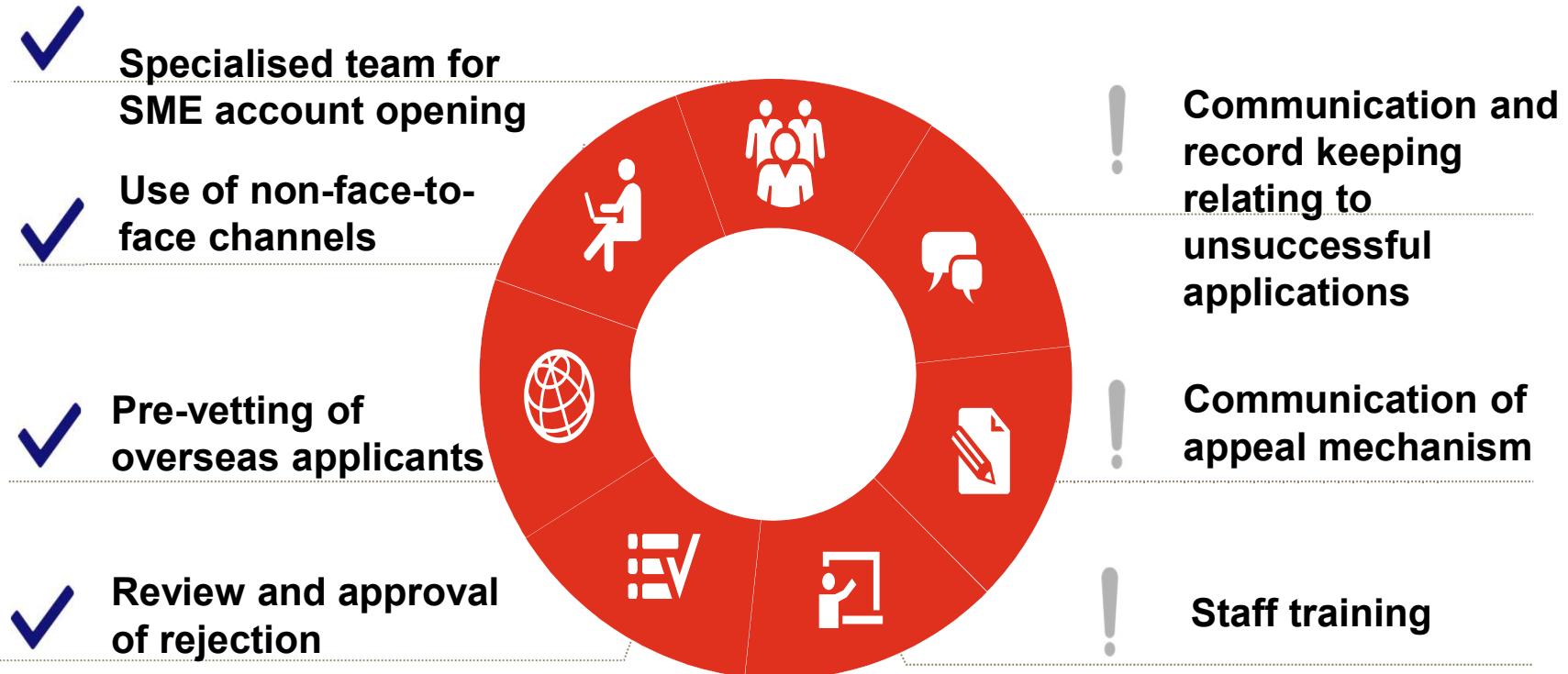
# Thematic Review - Background

- Review of how AIs apply AML/CFT measures when on-boarding SMEs customers
  - The HKMA commissioned a consultant to undertake the thematic review
- Conducted on selected AIs accounting for a significant market share of the SME customer segment
- Assessing how AIs understood ML/TF risks related to SMEs and whether the approaches adopted when on-boarding SMEs customers were consistent with the principles of RBA



# Good practices and areas for improvement

- A number of good practices and areas for improvement were observed in relation to the application of risk-based approach, improving customer experience and accessibility of service





## Customer Risk Assessment (CRA)

- AIs should be able to demonstrate that design and implementation of CRA reflects the principles of the RBA and differentiates the risks of individual customers within a particular segment or grouping
- Assessment of the customer's ML/TF risk is also an ongoing process based on dynamic information, and should not solely rely on static information obtained at the time of on-boarding.
- RBA does not require or expect a “zero failure” outcome at on-boarding. AIs’ risk management frameworks should seek to distinguish legitimate SME customers from those companies used for conducting fraudulent activities.





## Customer Due Diligence (CDD)

- AIs should ensure that design and implementation of CDD requirements reflect the assessed ML/TF risk level, taking into account the customers' operation and profile and any other considerations based on RBA. AIs should not adopt a one-size-fits-all or “tick-box” approach
- AIs are reminded that the extent of CDD measures should be proportionate to the risk level of the customer in order not to create undue burden on the customer and the AI itself.





## Implementation and Training

- AIs should provide adequate training to front-line staff to assess and understand the ML/TF risk and implement relevant measures consistent with RBA and enhance their ability to communicate effectively with customers, the purpose and rationale for collecting and/or validating requested or alternative information in completing the CDD processes





## Use of Technology

- The HKMA adopts a risk-based and technology-neutral approach in its supervision and encourages the banking industry to utilise appropriate technology solutions, such as remote on-boarding, which may introduce greater efficiency to CDD processes, reduce unnecessary compliance burden and assist AIs in managing risks and improving customer experience





# Q&A

